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Effect of Monetary and Fiscal Policies on Stock Price Movement in Lusaka, Zambia

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Abstract

Purpose: The study explores the effect of monetary and fiscal policies on stock price movements in the primary capital market of Zambia, Lusaka Securities Exchange (LuSE), focusing on how interest rates, inflation, government expenditures, and taxation decisions influence the behavior of investors and stock valuation in a developing market that suffers from economic volatility and limited market depth.

Methodology: To achieve this, the study embraced a mixed methodology of time-series quantitative analysis of macroeconomic and market data captured between 2010 and 2024, coupled with qualitative insights from semi-structured interviews. Ten participants, including financial analysts, stockbrokers, central bank officials, and economists were purposively selected for their respective expertise and direct engagement in Zambia's financial system. Quantitative data for analysis were obtained from the Bank of Zambia, the Ministry of Finance, and LuSE to determine long-term relationships between policy variables and market performance. Thematic analysis of the transcripts illuminated investor perceptions concerning policy communication and transparency, as well as issues affecting confidence.

Findings: The findings confirm the typical trend that an aggressive monetary policy, leading to an increase in interest rates, generally causes a fall in stock prices as it discourages investments and raises the price of borrowing. The same holds true for inflationary and expansive fiscal policies, especially if those policies are not accompanied by commensurate revenue generation. These factors generate uncertainties in the market and lower investor confidence. Participants held the view that abrupt policy changes coupled with poor communication and unpredictability act as catalysts that injure trust and result in reactive selling. It was concluded from this study that the coordination of economic policy and its transparency is a prerequisite for the maintenance of market stability and for bolstering investor confidence.

Unique Contribution: The study added a unique contribution in emphasizing the need for improvement of communication mechanisms between policy makers and market players, along with improving forecasting mechanisms of policy and upgrading the education of the wider community concerning the effects of macroeconomic policy on capital markets. Without those, the development of an inclusive and resilient financial environment in Zambia will be hampered.

Keywords: Effect, Monetary & Fiscal Policies, Stock Prices, Investor Confidence, Lusaka Securities Exchange, Zambia. **(JEL Classified H which is Public Economics)**

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1.0.Introduction

Stock prices in various international stock exchanges are considered signals of economic health and investor sentiment (Fama, 1970). These prices are cast under the influence of many macroeconomic factors, with monetary and fiscal policies claiming more importance (Mishkin, 2007). Central banks work to influence decisions of investors through interest-rate-setting, regulation of the money supply, and inflation control; Governments do the same through their taxation, expenditure, and borrowing policies (Blanchard & Johnson, 2013). Whereas much of the developed quantitative literature touches on their interrelationship with market performance (Bernanke & Kuttner, 2005), little is known about the real-life experiences, observations, and interpretations of market participants, especially in emerging economies like Zambia (Adam & Bevan, 2005).

Economic fluctuations, currency volatility, and changing policy orientations constitute the backdrop to Zambia's financial environment (IMF, 2023). The LuSE, being relatively young and small-sized by world standards, offers the necessary arena for capital formation and investment (LuSE, 2022). In reality, stock price movements on LuSE do not simply reflect market fundamentals but also frequently respond to broad economic signals traveling alongside fiscal budgets, monetary tightening or easing, and government debt levels (Bank of Zambia, 2023). In local investor, broker, and analyst circles within the Zambian stock market, all have to comprehend and interpret these signals before making any decisions (Kanyinji & Phiri, 2020). Yet, there is very little qualitative information explaining how stakeholders view the stock market with respect to monetary and fiscal policies and how their perceptions shape their reactions.

Amidst debt restructuring episodes in Zambia, inflationary pressures, and changes in interest rates (World Bank, 2023), it was declared an urgent necessity to research on how these key macroeconomic policies are perceived by major financial actors. This study attempts to fill that gap with an investigation into investor, financial analyst, and stockbroker perceptions and experiences in Lusaka concerning the effect of monetary and fiscal policies on stock price movements. Through a qualitative case study research, the study will reveal the subtle interpretations of economic policies and their influence on market sentiment and behaviors within Zambia's capital market.

Ultimately, this study aims to deepen our understanding of the intersection between policy-making and market dynamics in a developing economy. The findings are expected to inform both policymakers and market participants by highlighting the real-world implications of macroeconomic decisions on investor confidence and stock market trends in Lusaka (Kamau & Were, 2018).

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1.1.Background to the Problem and Context

Stock market plays an integral role in economic development in every economy and as such performance of stock markets remains critical in every country. Equity prices are among the key stock market performance indicators that are closely monitored by economic agents and authorities because of their sensitivity to arrival of new macroeconomic information. This sensitivity can cause price volatility and eventually lead to stock market bubbles which can be damaging for the economy, according to Kaonga D. (2020) scholar works published by The University of Zambia.

The Lusaka Securities Exchange (LuSE), established in 1994, is Zambia's primary stock exchange and acts as a vehicle for raising capital as well as offering investment alternatives for institutions as well as individuals (LuSE, 2022). Although strategically crucial, LuSE remains relatively underdeveloped with weak growth, poor liquidity, and minimal investor participation compared to other Sub-Saharan Africa exchanges (IMF, 2023). One primary cause of this subpar performance is that the exchange is subject to macroeconomic uncertainty and policy uncertainty (World Bank, 2022).

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Since 2010, Zambia has experienced various economic shocks including declining copper prices, rising fiscal deficits, devaluation of the currency, and rising inflation (Bank of Zambia, 2023). In response to this, the government has tended to resort to fiscal and monetary interventions designed to stabilize the economy. The Bank of Zambia also experiences mixed interest rates and liquidity levels, and the Ministry of Finance has pursued different taxation and expenditure policies to manage public finances (Zambia Ministry of Finance, 2023). However, the question remains whether these policies will influence capital market conduct.

Monetary policy tools such as increases in interest rates, though meant to contain inflation, can restrict credit supply and slow investment flow and thereby reduce stock prices (Mishkin, 2007). Irresponsible fiscal actions; that is, excessive expenditure and borrowing; on the other hand, can elevate inflationary pressures and end investor morale (Blanchard & Johnson, 2013). Such macroeconomic conditions bring about uncertainty and turbulence in the share market, as investors respond more to perceived risk than policy intent (Kamau & Were, 2018).

The intricate interaction among policy actions and market responses reminds us that there is a need to better comprehend how monetary and fiscal policies influence stock price behavior in Zambia. This research aims to investigate these dynamics, with a specific interest in how such policies influence investor attitudes and market directions on the LuSE.

1.2. Purpose and Objectives of the Study

The Lusaka Securities Exchange (LuSE) is the fulcrum of the financial market in Zambia, which is highly sensitive to monetary and fiscal policy shifts. The paper examines the effect of key variables, e.g., interest rates, inflation, taxation, and government spending; on the movement of stock prices, emphasizing the role of LuSE. The work explores the effect of monetary policies on market valuation and fiscal policies on the performance of firms. It also assesses the impact of how these policies interact to influence investor sentiment and market direction. It purposes to shed light on policy influences on Zambia's stock market and inform more rational economic and investment decisions. The Bank of Zambia (BOZ) reports that growth in the global economy has remained modest and uneven. According to the July 2015 International Monetary Fund (IMF) World Economic Outlook update, growth for 2015 is projected at 3.3%. Growth in emerging markets and developing economies is expected to slow down to 4.2% compared with the out turn of 4.6% in 2014. In Sub-Saharan Africa, growth is projected to slow to 4.4% in 2015 compared with 5.0% in 2014, largely reflecting the drop in commodity prices that has led to deterioration in external sector performance, particularly for commodity exporters. Currency Dynamics - Effects of the Weak Kwacha A very strong currency makes a country’s exports more expensive, affecting the nations trade competitiveness, while a weak currency makes imports more expensive, boosting domestic inflation. The ideal course is to aim for middle ground and avoid destabilizing fluctuations. In the Zambian context, the strength or weakness of the kwacha is mostly determined by the price of copper as predicted by the London metal exchange (LME). With this deterioration of the kwacha, it means government debt repayments will become more expensive that estimated.

2. Literature Review

2.1. Macroeconomic Policy and Financial Markets: A Global Perspective

Globally, the relationship between macroeconomic policy and the behavior of the stock market has been widely studied, particularly in the more developed economies with mature financial systems and wide ranges of data available. Perhaps the most influential study of this type was that by Bernanke and Kuttner (2005), and they discovered that unexpected changes in Federal Reserve interest rates in the U.S. led to stocks reacting sharply instantly. Their findings highlight the response of financial markets to monetary policy shocks, focusing on the role of expectations and changes in real interest rates in stock prices. And similarly, Chen,

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Roll, and Ross (1986) tested the influence of such economic variables as inflation, interest rates, and industrial production on asset prices. Their multifactor model demonstrated that macro forces are part of the risk pricing and stock return behavior and provided a broad-brush framework for future empirical work in finance. These articles suggest that in high market liquidity and information richness conditions, the transmission mechanism of policy to stock prices is direct and measurable.

COVID-19 shocked the global economy, causing a severe recession. Monetary and fiscal policy activated to support the economy and later transitioned to fighting inflation after the recovery. In the initial period following the onset of the pandemic, the Federal Reserve's (Fed) monetary policy response was to cut interest rates to the zero lower bound, activate a series of emergency lending facilities to support a wide array of financial assets, and engage in quantitative easing (QE). Post-recession the Fed began raising interest rates, ended its emergency lending facilities, and stopped QE.

In Zambia which is even a smaller economy recovery from the COVID pandemic brought the highest inflation just like I happened in the U.S. where I was seen as in decades; annual growth of the Consumer Price Index (CPI) reached 9% in 2022.[1] Economists continue to debate the causes of this inflationary episode. COVID supply shocks, unprecedented fiscal stimulus, and rapidly shifting consumption preferences have all received substantial attention as underlying factors triggering inflation.[2] At the Fed's 2024 Jackson Hole Economic Symposium, Federal Reserve Chairman Jerome Powell gave a list of reasons for inflation in the U.S.: "supply chain shocks, speed of demand snap-back post-pandemic, Russia's invasion of Ukraine, and tight labor markets."[3] Housing was absent altogether from his list.

However, the path of housing inflation differed from overall inflation and remains elevated while other categories have cooled. As shown in Figure 1, before COVID, housing inflation had been stable and above overall CPI. During the inflation spike in 2021, housing inflation remained low initially, falling below overall inflation for the first time in almost a decade. After overall inflation took off, housing inflation followed. While overall inflation peaked in mid-2022, housing inflation kept rising, peaking almost a full year later in early 2023. Subsequently, while overall inflation has eased, housing inflation remains elevated at an annual change of 5% in mid-2024 and 4% in mid-2025, whereas overall CPI is down to 3% and non-housing inflation is down to 2%. The persistence of housing inflation is a leading factor in the persistence of overall inflation above the 2% target even long after other sectors have cooled.

while private capital inflows are considered beneficial, they have some pitfalls particularly for short term capital flows that tend to be speculative in nature, they have the potential to destabilize the economy. Large portfolio inflows, deemed to be unsustainable in the long-run have been perceived as the main cause of financial crises in emerging economies. For this purpose, this investigated the effects of capital flows in Zambia and other countries with a view to building up credible policy options for Zambia so as to deal with adverse effects of such flows based on other countries' experiences. In view of this, we recommend that firstly, the Zambian authorities should look at measures to direct foreign capital inflows towards financial issues with long term maturity. Secondly, the authorities should scale up reserve accumulation in the event of the surge in capital inflows other than allow for currency appreciation. Thirdly, a framework to categories non-residents' funds in the banking system according to maturity and type of deposit, for both Kwacha and foreign currency accounts, and an appropriate surveillance mechanism be put in place to monitor non-residents' flow of funds into the banking system.

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2.2. Macroeconomic Policy in Emerging Markets

Compared to developed economies, emerging markets are more sensitive to macroeconomic disturbances due to structural weaknesses, shallow investor bases, and poorly established regulatory institutions. Mukherjee and Naka (1995) found that long-run relationships existed between macroeconomic variables such as inflation, money supply, and interest rates; and equity prices in Japan, highlighting the long-term impact of monetary influences in economies in transition towards full market liberalization.

Within Africa, the interplay between fiscal and monetary policy and stock markets has garnered increasing attention. Mutenheri and Green (2003) examined Zimbabwe's capital markets and found that persistent fiscal instability and hyperinflation led to investor withdrawal and heightened market volatility. Their findings suggest that macroeconomic mismanagement not only erodes investor confidence but also undermines the functionality of financial markets in mobilizing capital for growth.

In addition, studies in Nigeria and South Africa indicate that government spending, interest rate policy, and exchange rate volatility drive investor behavior the most (Ologunde, Elumilade, & Asaolu, 2006; Akinlo & Olufisayo, 2009). The evidence indicates that forward-looking policy and consistency are essential to the development of emerging economies' financial markets where institutions may be under development.

Peter Arhenful,Richard Fosu, & Mathew Owusu-Mensah Accounting and Finance Department, Accra Technical University, Accra, Ghana and gre suppor also comes from oher scholars countries like Kena and Tanzania as well the impact of interest and exchange rate volatility on financial sector stock returns in Tanzania. The study adopted secondary time-series data from 2014 to 2021. In data analysis, the study also utilized the Autoregressive Distributed Lag (ARDL)bound test approach to establish the long and short-term effects of the independent variable of interest on stock returns. Results showed a long-term inverse relationship between interest rates and financial sector stock returns. However, during the specific period from June 2014 to April 2021, interest rates were insignificant in affecting stock returns despite the inverse trend. In contrast, exchange rates significantly affected stock return fluctuations, showing a short-term inverse relationship. Coretha Kombe etail (2024) further, In the year 2015 on the first two quarters there has been a poor performance in the Kenyan stock market. Investors had shifted to their funds to the stock exchange in Nigeria. Various reasons have been given to these changes. Major ones being introduction of the capital gains tax and exchange rate fluctuation. The latter reason was mainly assumed due to a similar fluctuation of the Kenya shilling against the dollar. This study thereby confirms if this reason given by analysts is true and whether investors, borrowers, stock brokers and the regulatory authority can use this study to predict the stock market performance. DAVID MUNGAI M. (2023)

2.3. The Zambian Context: Gaps and Challenges

Empirical research connecting macroeconomic policy to stock market performance in Zambia remains scarce. Even though the Lusaka Securities Exchange (LuSE) has a crucial role to play in capital formation, its low liquidity, thin market size, and high responsiveness to economic policy shocks make it vulnerable to risks of macroeconomic instability (LuSE, 2023). The Bank of Zambia (BOZ) has undertaken many monetary interventions; both policy rate adjustments and open market operations; in an attempt to control inflation and stabilize the currency. However, they are rarely evaluated against their short-run impact on equity markets.

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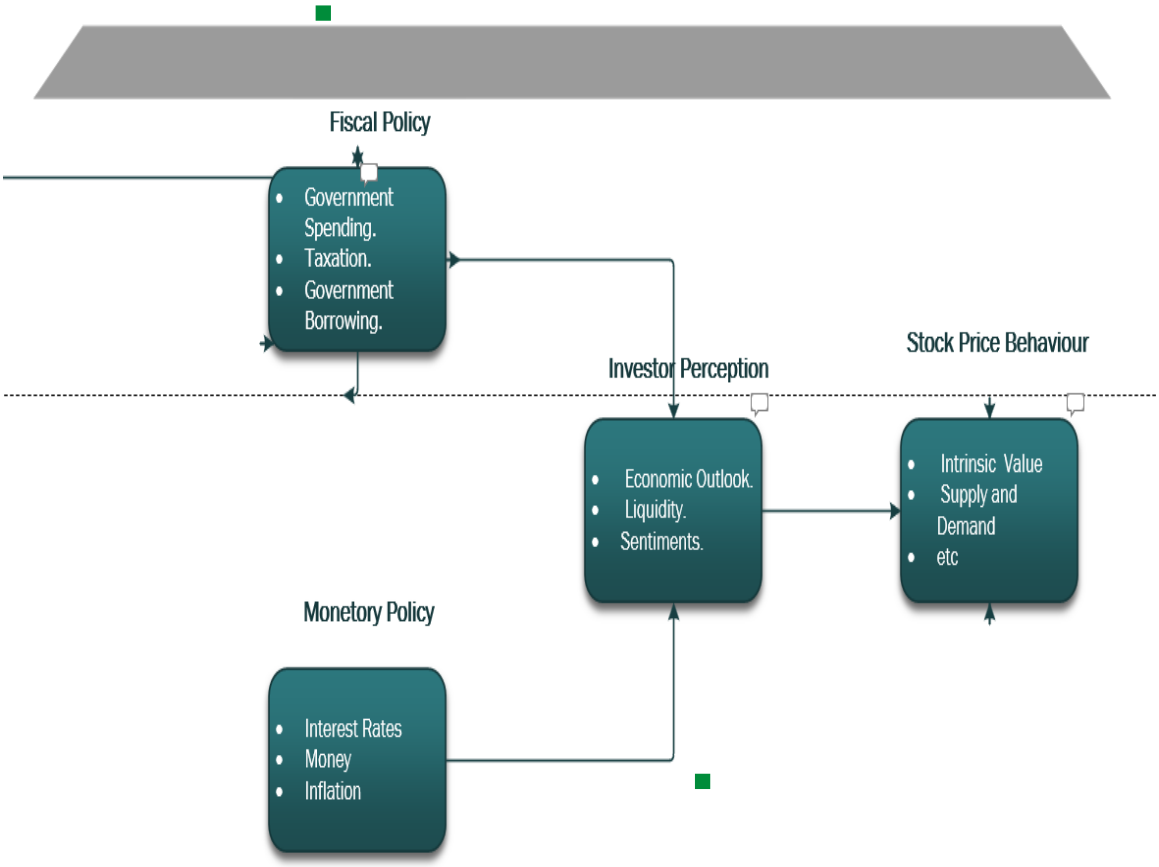
The BOZ's annual reports like to highlight the success of monetary tightening in exchange rate stabilization but fall short of analyzing the impact of such interventions on investor sentiment and stock price trends (Bank of Zambia, 2023). Fiscal policy has also played an unstable role in Zambia's macroeconomic management. Episodes of expansionary public spending; often financed by foreign debt; have set off alarms about fiscal sustainability, which in turn affect investor perceptions of market risk (World Bank, 2023). Despite these dynamics, there are few local studies that have systematically investigated the causal relationship between government policy and stock market performance.

This study fills that gap by adopting a qualitative methodology in investigating the impact of monetary and fiscal policy on investor behavior and direction of stock prices on the LuSE. It seeks to add international evidence while placing findings within Zambia's unique economic and institutional environment. By basing the evidence on the years 2010 to 2024, the study aims to present an educated view of policy-market relationships that can both enhance academic discourse as well as applied policy development in the Zambian context.

2.4. Theoretical Frameworks and Synthesis Theoretical Framework



This study is based on three simultaneous economic theories that provide an amalgamated view of the interlinkages between stock price behaviour and monetary policy, as well as fiscal policy and stock price behaviour on the Lusaka Securities Exchange (LuSE): Efficient Market Hypothesis (EMH), Monetarist Theory, and Keynesian Theory. These theories together account for how policy choices influence investor

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response and market processes in the Zambian financial mark Efficient Market Hypothesis, initially proposed by Fama (1970), hypothesizes that financial markets are "informationally efficient." In other words, stock prices at any given point in time will reflect all and every bit of available and related information, such as macroeconomic announcements like changes in interest rates, inflation rates, or fiscal budgets. Under the EMH framework, monetary and fiscal policy moves are rapidly digested by market participants and reflected in stock prices (Malkiel, 2003). As such, it is only novel or novel information—instead of policy changes already anticipated by the market—that is able to induce significant price alterations. For LuSE, this theory helps explain to what extent stock prices respond to the announcements of macroeconomic news and whether such responses are lagged or contemporaneous as a result of structural inefficiencies in the domestic market (Basher & Sadorsky, 2006).

However, the general critique is ha Critiques of the Efficient Market Hypothesis (EMH) as applied to the Lusaka Securities Exchange (LuSE) primarily focus on **market microstructural issues** such as low liquidity and information asymmetry, which generally suggest the LuSE may not fully achieve a strong form of efficiency.

Monetarist Theory, as advocated by economists such as Milton Friedman, asserts that variations in money supply are a primary source of economic performance and inflation (Friedman, 1968). According to this theory, monetary policy actions; namely the adjustments in interest rates and reserve requirements; have a direct influence on investment decisions, liquidity, and consequently on stock market behavior (Mishkin, 2007). Increased interest rates have the ability to restrain borrowing and reduce the profitability of business, hence decreasing the prices of stocks. Conversely, relaxation of monetary policy measures aimed at increasing liquidity can enhance investment and increase market performance (Bernanke & Gertler, 1995). In the Zambian context, in which the Bank of Zambia regularly intervenes to curb inflation and stabilize the exchange rate, the monetarist perspective is critical in examining how these interventions trickle down in capital markets (Bank of Zambia, 2023).

Keynesian economics, on the other hand, provides a critical counterbalance to monetarism in so far as it places focus on utilizing government spending and taxation to control economic cycles (Keynes, 1936). Fiscal policy-again, either as budget deficits, government spending, or taxation-affects aggregate demand directly, with this having an eventual impact on corporate profit and investor psychology (Blanchard & Johnson, 2013). In times of recession, expansionary fiscal policy spurs investment and consumption, firm revenues, and share prices (Arestis & Sawyer, 2003). Austerity cuts or over-taxes may stifle economic activity, leading to bear market activity. To Zambia, for example, where the budget decisions such as the elimination of subsidies, infrastructure expenditure, or debt accumulation have big political and economic implications, the Keynesian framework offers a vital lesson about the contribution of public finance to market trends (World Bank, 2023).

Collectively, these theories offer the base from which to analyze the impact of policy-driven economic cues on stock price movement at the Lusaka Securities Exchange. EMH offers insight into market responsiveness and efficiency; Monetarist Theory defines the effect of central bank policy; and Keynesian Theory defines the fiscal side of investor and market reaction. Through integrating these theoretical perspectives, the study seeks to develop an advanced understanding of the nexus between stock market movements and policy interventions in the face of Zambia's evolving economic environment.

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3. Methodology

The study applied a mixed-methods research design to achieve an integrated examination of the effects of monetary and fiscal policy decisions on stock price movement at the Lusaka Securities Exchange (LuSE). The application of a mixed-methods research design enabled the integration of both quantitative and qualitative information, such that greater depth of insight into the complex relationships between macroeconomic policies and financial market behavior was achieved. Utilizing quantitative data analysis in addition to deep contextual understanding provided by sector experts, the study aimed to get at the full gamut of factors influencing stock prices in Zambia.

The quantitative component of the study was primarily based on second-hand data from credible government and financial institutions sources. Information for the period 2010 to 2024 was obtained from the Bank of Zambia, Ministry of Finance, and the Lusaka Securities Exchange itself. These data included key macroeconomic variables such as interest rates, inflation rates, government spending levels, and revenues from taxation, as well as stock price indices measuring overall market performance. This longitudinal data set provided the empirical foundation needed to analyze trends, correlations, and causality over a fourteen-year period, thus enhancing the validity and external generalizability of results.

In addition to the quantitative data, the qualitative aspect involved conducting semi-structured interviews with a purposive sample of ten (10) respondents. These respondents were identified specifically due to their experience and direct interaction with Zambia's financial markets and policy-making. The interviewees comprised financial analysts, economists, stockbrokers, and central bank staff. The semi-structured layout allowed for flexibility in questioning participants' understanding, experience, and interpretation of the impacts of monetary and fiscal policies on investor activity and movements in stock prices. Qualitative response was necessary to set statistical findings within context and to uncover underlying causes such as challenges to policy initiatives, market sentiment, and investor confidence that are not necessarily completely indicated by quantitative indicators alone.

To analyze the data, the research used sound methods in line with the character of each type of data. Quantitative analysis made use of time-series regression models to study the interplay between macroeconomic indicators and stock price action. The statistical method was suitable for managing the time factor in the data so that the researcher would be able to eliminate the effect of trends, seasonality, as well as possible effects of autocorrelation common in economic time series. With regression analysis, the study aimed to determine the magnitude and sign of the impact interest rates, inflation, government expenditure, and taxation have on share prices, thereby confirming the main hypotheses from the theoretical model.

Qualitatively, thematic analysis was applied to the interview transcripts. Through this process, systematic coding and classification were performed of recurring themes and patterns regarding policy impacts, market reactions, and investors' confidence. Thematic analysis enabled the extraction of rich, qualitative narratives, which complemented the quantified evidence to convey underlying real-world processes beneath statistical correlations. By triangulating evidence from both data streams, the study achieved a robust and comprehensive appreciation of the economic and behavioral drivers affecting the performance of the stock market in Zambia.

4. Findings

4.1. Quantitative Findings

4.1.1. Interest Rates:

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The regression equation generated a statistically significant negative relationship between stock prices and interest rates on the Lusaka Securities Exchange (LuSE). That is, as the Bank of Zambia raised the monetary policy rate, the stock prices dropped considerably. The negative association is reflective of the fact that when there are higher interest rates, it becomes costly to borrow for investors and firms, leading to less investment activity and growth plans. The evidence demonstrated that when money was tight, market liquidity declined, hence dampened stock market performance. For example, 2017–2018, which was marked by rising increments in the policy rate, coincided with a downward trend in the LuSE All Share Index, indicating the responsiveness of stock prices to interest rate changes.

4.1.2.Inflation:

The effect of inflation on stock prices was found to be mixed and rather nuanced. Reasonable levels of inflation had little influence on market valuations, consistent with investor perceptions that moderate price rises can be sustained in the business environment. However, during episodes of excessive inflation, especially in 2015-2016 when inflation rates shot through over 20%, the stock market experienced sharp falls. This trend is induced by increased uncertainty amongst investors, purchasing power loss, and reduced consumer spending. Inflationary pressure appeared to burst confidence in the outlook for corporate earnings, triggering selling and increasing stock price volatility.

4.1.3. Fiscal Spending and Deficits:

The research observed the adverse effect of budget deficits on the performance of the stock market. Period characterized by increased government expenditure, but not with a matching increase in revenue, resulted in widening fiscal deficits. These deficits, in turn, exerted downward pressure on the stock prices due to fear by investors of mounting public debt levels and potential currency instability. The 2016–2017 budget years perfectly illustrated this pattern, where increasing government spending was followed by slow tax revenue in turn causing declining share prices. These conditions fueled concerns of inflationary financing and undermined market confidence in the nation's fiscal sustainability.

4.1.4.Taxation:

Changes in corporate tax policies were a major driver in investor sentiment and share prices, particularly in Zambia's large-scale mining sector. The increase in mineral royalties in 2019 was associated with a steep decline in mining shares that had a substantial impact on the LuSE All Share Index given the industry's market value. Investors were negatively affected by what was viewed as decreasing profitability and hence carried out sell-offs on target shares. This shift in taxation policy demonstrated how fiscal government movements directly influence market expectations and lead to sector-specific drops.

4.2. Qualitative Insights

The qualitative interviews also provided rich contextual depth to supplement the interpretation of the quantitative findings. In each of the ten interviews among financial analysts, economists, stockbrokers, and central bank officials, there was a common thread: policy uncertainty; especially in the form of surprise tax measures or abrupt interest rate hikes; always seems to spark market fear and bewilderment, which subsequently raises stock market volatility.

One of the senior financial planners said,

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"It's not what the policy is- it's how and when it is brought in that makes a difference to the way the market reacts. Drastic moves without clear signals alarm investors and trigger knee-jerk selling."

Similarly, one central bank official explained, "Even if the policies are technically right, bad communication and timing make it hard for markets to digest changes smoothly."

Interviewees also stressed the value of communication and openness in settling market expectations. Several respondents pointed out that improved exchange between investors and policymakers could limit overreactions as well as generate confidence in the long-run framework of economic policy.

One stockbroker said, "If investors can understand why there has been a shift in policy and they can see a plan, then they are less likely to panic. Regular information updates and consultations can take away uncertainty."

Economists also underlined that Zambia's emerging financial market requires a more stable policy regime to attract permanent investment. The overall consensus was that clear, consistent, and clearly explained monetary and fiscal policies are essential to establishing a stable investment climate and improving stock market resilience.

One of the leading financial analysts pointed to the importance of timing and communication, further saying:

“It's not what it says, but how and when it's said that will induce the market reaction. Sudden action with no warnings irritates the investor and can induce knee-jerk selling."

This opinion was echoed by a Central Bank official who acknowledged the institution's inability to manage perception:

“Even with technologically sound policies, poor communication and timing keep markets from readjusting smoothly. Markets don't like surprise; they like clarity and consistency."

Transparency was seen as one of the factors that could play a major role in shaping investor sentiments. A few interview respondents said that advance warnings might reduce overreactions and create a sense of stability.

One such stockbroker with over a decade's experience on the Lusaka Securities Exchange said:

“If investors get a clear idea of why policies change and are provided with a good blueprint, they won't panic. Regular updates and consultation can prevent uncertainty and rumour-mongering”.

One other economist commented:

"We don't need perfect policies; we need predictable ones. Investors can manage risks, but can't manage surprises.".

Participants also complained about the lack of connection between policymakers and market players.

"There's a perception that fiscal decisions are made without considering how the market will interpret them. We need better coordination and more structured feedback mechanisms," said one financial consultant.

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Among the usual suggestions presented during the interviews was establishing institutional platforms where stakeholders would have two-way communication with monetary authorities and the government. As one of the economists presented:

"It's time we stopped treating investors as spectators. They are stakeholders. Involving them beforehand might help create confidence and dampen the emotional response to policy shifts."

Some of the participants emphasized that Zambia's young capital market requires policy stability and credibility if it has to entice chronic domestic and foreign investment. As one senior economist stated:

"Uncertainty is the enemy of investment. In order for LuSE to grow and mature, we need more than reforms; we need predictable, well-communicated economic governance."

Overall, the qualitative data strongly substantiates the argument that the effectiveness of monetary and fiscal policy in Zambia is as much about timing, communication, and perception as economics. Clear, consistent, and transparent policy is essential for establishing a strong investment environment and enhancing the Lusaka Securities Exchange's role in national economic development.

5. Conclusion and Recommendations

5.1. Conclusion

This study confirms that monetary policy and fiscal policy each exert significant effects on stock price volatility in Zambia. Specifically, contractionary monetary policy, that is articulated in the guise of higher interest rates, has the effect of deflating stock prices through the raising of borrowing costs and dampening of investment activity. Likewise, irregular or expansionary fiscal policy, such as out-of-control government spending and sudden fluctuations in taxation, bring about uncertainty that corrodes investor confidence and destabilizes market performance. These findings highlight the paramount importance of adopting harmonized and transparent policy paradigms that fully consider the stock market's sensitivities with utmost caution. This is imperative for establishing an investment-friendly climate and propagating sustainable growth in the financial markets of Zambia.

5.2. Recommendations

In light of this study's evidence, some key recommendations are advanced for stimulating the responsiveness and stability of Zambia's stock market to macroeconomic policy. These actions are aimed at building investor confidence, stimulating market development, and fostering a more transparent and coordinated policy environment.

Firstly, policy coordination between the Bank of Zambia and the Ministry of Finance is crucial. There must be official coordination mechanisms to ensure that monetary and fiscal policies are aligned towards the attainment of common economic goals. This would avoid the sending of conflicting policy signals that have a tendency to confuse and add fuel to stock market volatility.

Secondly, there must be greater transparency by adopting forward guidance practices, which would be highly beneficial to investors. By issuing unambiguous pronouncements on prospective shifts in interest rates, taxation, and state spending, policymakers can promote better-informed choices among market participants.

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Preemptive and consistent signaling reduces speculation and panic-driven reactions, resulting in overall market stability.

Thirdly, investors' education must be enhanced urgently. Public awareness campaigns and expert training programs should be initiated to raise the overall understanding of how monetary and fiscal policies affect share prices. This would allow institutional and retail investors to logically decipher policy changes and make the necessary revisions in their strategies. Fourthly, there should be an effort to enhance participation in the Lusaka Securities Exchange (LuSE). The policymakers and market regulators ought to institute incentives that will attract more local firms to be listed on the exchange. A larger foundation of listed firms would improve market liquidity, trading volume, and the diversified portfolio offered to investors, which would reduce systemic risk.

Finally, there is a necessity to develop institutional forecasting tools that can simulate and estimate the effects of proposed policy measures on the conduct of stock markets. These tools would be a valuable contribution to both policymakers and investors in planning and decision-making and, ultimately, a stronger and more forward-looking financial system. Together, these recommendations offer an agenda for improving the link between macroeconomic policy and stock market performance in Zambia. Their implementation could go a long way to boost investors' confidence, market efficiency, and economic growth in the long term.

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Title: Effect of Monetary and Fiscal Policies on Stock Price Movement in Lusaka, Zambia

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JEL Classification Codes:

Primary JEL Codes:
• E52 – Monetary Policy
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• G12 – Asset Pricing; Trading Volume; Bond Interest Rates

Secondary JEL Codes:
• G18 – Government Policy and Regulation
• O16 – Financial Markets; Saving and Capital Investment; Corporate Finance and Governance
• O55 – Africa; Southern Region

Summary:

These JEL codes capture the study's focus on the impact of monetary and fiscal policies on stock price movements in the Lusaka Securities Exchange (LuSE), Zambia. The research integrates macroeconomic policy analysis, market behavior, and financial development within an emerging African economy context.